

GLOBAL INSIGHT

April 21, 2016 5:35 pm

# Greece's debt crisis looks familiar, but consequences may be worse

Peter Spiegel in Brussels

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The mother of all EU crises has been gathering steam again



While Europe's political class has been consumed with preventing refugees from entering the EU and Britain from exiting, the mother of all EU crises has slowly and quietly been gathering steam again: Greece.

Eurozone finance ministers will meet on Friday after yet another round of fruitless talks in Athens where almost nobody agreed on the way forward.

And just like the Greek crisis that gripped the EU last year, there is a hard stop arriving very soon: unless Athens receives its next round of bailout aid, it risks defaulting on €3.5bn in debt payments in July, raising anew the agonising prospect of Grexit.

How could this be happening again?

After a series of increasingly desperate summits nearly a year ago, EU leaders agreed an €86bn bailout that pulled Greece back from the brink. Just months later, a chastened Alexis Tsipras, the far-left prime minister who made his political bones railing against two similar EU rescues, won re-election promising to implement the harsh fiscal measures included in a third programme.

European Commission officials were touting Mr Tsipras as a changed man; shorn of his ornery finance minister Yanis Varoufakis, Brussels convinced itself that the long-time radical had transformed into a diligent economic reformer.

But they overlooked the political realities in Athens — not to mention the financial realities of the bailout.

In fact, last summer's deal was less a cure-all for Greece's economic woes than a collective kicking of the can down the road. It avoided default by loaning Athens €13bn very quickly in exchange for a narrowly focused set of pension and tax reforms.

Even then, much of the heavy lifting was put off until the new programme's first quarterly review — including the politically combustible issue of debt relief. As if to underline how ephemeral the deal was, the International Monetary Fund made clear it was not participating and would put off any decision on whether to join until it was certain Mr Tsipras, who had become the first leader of a developed country to default on an IMF payment, would live up to his commitments.

That first quarterly review has now stretched into two additional quarters, and the three-dimensional stand-off between Athens, Berlin and the IMF has only deepened.

While the IMF has demanded a restructuring of Greece's debts, Germany has suddenly decided that no debt relief is needed at all. Still, it has insisted the IMF participate anyway.

Meanwhile, the IMF has decided the agreement reached in July was badly constructed and should have lower budget surplus targets.

As for Mr Tsipras, he has returned to an angry, defensive crouch, railing against outside forces.

There is little political capacity in Athens to push through additional reforms or spending cuts even if Mr Tsipras wanted to.

“Europe's politicians have been distracted with other challenges and markets have become complacent about the inherent risks in Greece's new bailout,” said Mujtaba Rahman, head of European analysis at the Eurasia Group risk consultancy. “But if Berlin doesn't revise its approach, this is going to blow up in everyone's faces.”

The players, the arguments and even the choreography have changed little since last year. But the consequences of failure may have.

A year ago, EU leaders felt confident they had ringfenced Greece and that a Grexit, while severely

damaging to the Greek economy, would have little impact on the rest of the eurozone.

Now, however, they are deeply worried about the prospect of a failed EU member state with 50,000 Syrian, Iraqi and Afghan refugees stuck in deteriorating camps — a state the rest of the bloc is looking to as a front line against the influx of migrants into Europe.

And then there's Britain. Senior EU officials are acutely aware that another ugly Greece fight just as Britons go to the polls on June 23 to decide on whether to stay in the EU would not help their cause. One official involved in the talks said Euclid Tsakalotos, the Greek finance minister, has been warned to wrap up a deal by the end of May — or be ready for radio silence until June 24.

In the end, these pan-European political realities make another Greek agreement all the more likely. But that does not mean it will be pretty.

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